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FIVE YEARS OF PROGRESS IN DISABILITY PROTECTION

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The disability clause furnishes one of the most astonishing developments of recent life insurance history. Its phenomenal success is indicative of a service rendered to policyholders of such real value that it cannot lightly be disregarded. It is perfectly true that novelties enter the life insurance contract, and the disability clause has been one; but many of the most substantial provisions of that contract have at some time been novelties. That they have endured proves them to have been of real worth. If this be the character of the disability clause, there must be a definite need for the protection it offers and it will be perfected until the insurance it furnishes is adequate. As a policy "trimming," its coverage has been more or less haphazard; in its more recent developments, however, there is discernible a tendency to make a sound insurance measure of it.

The risk of disability is just as real and the consequences of its occurrence may be as disastrous as death or old age. No man fully conscious of the hazards of life can safely undertake responsibilities which it will require years of income earning to satisfy without making provision by life insurance for the cessation of that income at his death, just as no sane man would think of operating a large industrial plant without fire insurance. Expressed in terms of its consequences, therefore, the hazard he faces is cessation of income. Now, income may stop because of death or old age; and it may also stop because of permanent and total disability. Still other disasters might overtake one and cause a cessation of earning power. For instance, there is sickness or unemployment. But because the last two are temporary in character they do not have the same importance as a catastrophe from which there is no recovery.

Since, then, the regular life insurance contract furnishes protection against the cessation of income through death or old age, the proceeds of life insurance should be available only when these

hazards occur, granted there is the necessary connection between *needs* to be satisfied and the amount of insurance carried. Disability protection to be adequate, therefore, should not encroach upon the "death fund," but should fill the income gap between the time of disability and the time of death. That protection of this nature is not furnished in any way outside of the life insurance contract is well known. The personal accident insurance companies give total disability protection but, with few exceptions, it is given in one-year term contracts, renewable only at the option of the insurer. A greater objection to these contracts is the fact that to obtain the required protection against loss of income by total disability it is necessary to purchase so many "trimmings" that the contract becomes top-heavy. With permanent disability protection there goes protection against death and against all sorts of temporary ills, many of them important, to be sure. The death coverage is a duplicate of the life insurance protection and the temporary disabilities are not in a class with the important permanent ones. Hence it is not surprising that the disability clause, which first appeared as a frill in the life insurance contract, has begun gradually to lose its decorative character and to take on the appearance of a real insurance measure.

The developments of the last five years are little short of phenomenal. The writer made a previous study of the disability clause, based on contracts used in 1912,¹ which on the whole revealed tendencies of growth, but which in far too many cases revealed conditions uncomplimentary to life insurance. Many clauses were frankly adopted as talking points for agents; some were trimmings of such filmy character as to appear to offer much but give little; and a few, under the guise of benefits, actually took from the insured what was rightfully his at death.

In this short period of five years no less than twenty-six companies have revised their clauses, almost without exception for the better; and forty-seven entirely new clauses have entered the field. Of the latter, twelve are from companies organized since January 1, 1912, eight from those organized prior to 1870. That old, long established companies introduce the clause indicates that it has

¹ "The total Disability Provision in American Life Insurance Contracts," *Supplement to The Annals of The American Academy of Political and Social Science*, May, 1915.

value, otherwise they could meet competition without it. Some of the older companies have adopted it reluctantly, and only after great pressure from their agency force.

The character of the new clauses and of the changes made in the older clauses is indicative of the direction of development, and the tendency in both cases has been toward greater liberality to the insured, and greater conformity to standards of practice generally accepted as sound.

AGE LIMITS

In the discussions of the disability clause among actuaries there has been general agreement that available data for the measurement of the risk was trustworthy to age sixty, and the majority of the older clauses gave benefits only for disability occurring prior to that age. Among recent changes, two companies have reduced their age limit from sixty-five and seventy, respectively, to sixty; while another has raised the limit from fifty-five to sixty. In one case an age limit of eighty was removed and benefits allowed for disability at any time. Of the forty-seven new clauses, forty-four fix the age limit at sixty.

THE DEFINITION OF DISABILITY

The scope of the term "disability" is all important with reference to the coverage furnished by the clause. Disability may be defined with reference to one's occupation or with reference to the cause which produces it. In the previous study referred to it was stated that no clause defines disability with reference to the occupation of the insured; but in order to obtain benefits one must be so incapacitated as to be unable to perform the duties of *any* occupation. No exception to this rule yet exists. One is inclined, however, on considering the causes of disability, to conclude that most disability which prevents the performance of the duties of one occupation will equally prevent the performance of any work whatever; for the large majority of cases are caused by tuberculosis, insanity, paralysis, cancer and accident. In this connection, recently published experience on the first 390 cases approved by the New York Life Insurance Company is interesting:²

² Quoted from *The Spectator*, Nov. 9, 1916, p. 67.

CAUSE OF DISABILITY	NUMBER OF CASES
Tuberculosis	165
Insanity	102
Paralysis	28
Accident	21
Cancers and tumors	18
Other causes:	
Rheumatism	} 56
Heart trouble	
Blindness	
Goitre	
Diabetes, etc.	
Total	390

If it be true that disability with reference to one occupation will be disability with reference to *all* occupations in most cases, the risk is well covered by the present clauses. Furthermore, the added cost of covering the broader definition will be slight and it may be expected that clauses will be so issued as soon as the companies have had sufficient experience to justify the truth of the assumption.

The majority of clauses existing prior to 1912 covered disability caused by "bodily injury or disease" or "from any cause whatsoever." Fifteen cases of narrower scope were found at that time. Of these one has since joined the majority. Of the forty-seven new clauses but three have restricted their definitions, two of them making an exception of insanity. The data above show its importance. The third company covers total disability arising from a few specially enumerated cases of accident. While even three exceptions are to be regretted, they represent but 6 per cent of the new clauses as compared with 12 per cent of the clauses in 1912.

A restriction of different character in the scope of disability has recently appeared in five cases, in the refusal to give benefits for disability due to military or naval service in time of war. It may even seem surprising that it has not appeared oftener, in view of the present war.

BENEFITS

Among the most commendatory changes that have occurred in the last five years in disability clauses, the gradual liberalizing of the benefits granted is easily of first importance. There seems to have been a very definite growth in conception of the purpose of

the clause in the life insurance contract. Starting with the idea that disability would cause a cessation of earning power and thus possibly compel the lapse of insurance that is carried by yearly payments from income, attention was first directed to a benefit that would keep the insurance in force. The waiver of premiums, or their payment by the company during the period of total and permanent disability, was the result. But it was soon apparent that this worthy end was not sufficient, that it did not replace the lost earning power of the insured. So the next modification came, in the form of immediate maturity of his policy upon the occurrence of disability, instead of requiring him to wait till death or the end of an endowment term to receive its value. Many policies thus mature today and are paid to the insured in ten or twenty annual installments, or even better in some cases in monthly installments over the same term of years.

But even this benefit has not replaced the lost earning power of the insured. His *insurance* is carried for the purpose of satisfying his responsibilities to others in case of his premature death and, if properly based on such needs, is not intended to supply his own personal wants while living. It is the same with endowments intended for old age provision: if they are drawn upon before he reaches the age of retirement, he increases to that extent the possibility of old age dependency. So, the protection needed by the insured against permanent and total disability, whether it shall be given by the disability clause or not, is such as will maintain his insurance in force unimpaired, and at the same time will replace his lost income and enable him to supply his personal wants and his continuing responsibility to others. Many persons today feel that this is too much to expect from the disability clause. While admitting the need of such protection, they maintain that the risk is separate and distinct from the life insurance risk and should be covered in a separate contract.

The growing tendency of the last five years is reflected not so much in the fact that the third type of benefit is given in three clauses but that among the revised clauses as well as the new ones, benefits generally have a larger dollars and cents value than they had five years ago. An examination of the various changes shows this clearly.

Waiver of Premiums

The waiver of premiums continues as the benefit given in the majority of cases. Among the new clauses twenty-five grant it alone; thirteen allow choice between it and installment benefits; four of the old clauses have dropped their installment option and offer only the waiver benefit.

The main question arising here is whether the insured will continue to receive dividends in case he has a participating policy. Prior to 1912 nine clauses clearly stated that dividends would continue after disability. Two of the older clauses have since been changed to conform to this practice. Of eighteen new clauses issued by participating companies which give the waiver of premiums as a separate benefit, six have stated that dividends will continue to be paid. This is a remarkably large proportion as compared with 1912.

Though disability must occur prior to age sixty in order regularly to obtain full waiver or installment benefits, the insured is not always left entirely unprotected thereafter. The company may permit the cessation of premium payments by the insured, but hold them as a lien against the policy or reduce the amount of insurance in force. A few companies followed this practice prior to 1912; since then five old and ten new clauses have granted this option. The practice of using such premiums to reduce the amount of insurance in force is more liberal than holding them as a lien against the reserve value of the policy. It was followed by one company in 1912; seven do so at the present time.

Payment of the Policy in Installments

Where the policy is paid in installments after total disability, the amount of the benefit may be determined in one of two ways. The company may consider the policy fully matured for its face value, the same as though death had occurred. In this case the insured *has* available, on a \$1,000 policy, \$1,000 in present cash value; if the benefit is payable in ten or twenty installments, the amount of each installment will be more than \$100 or \$50, respectively, since the company will give credit for interest earned on funds still unpaid. On a $3\frac{1}{2}$ per cent interest basis, for instance, ten installments of \$116 each or twenty installments of \$68 each may be paid. On the other hand, the company may consider that \$1,000

in all shall be paid and, instead of waiting for death, installments may begin at once. Twenty installments of \$50 each or ten of \$100 may thus be paid. It is apparent, however, that this is equivalent to considering the policy matured, not for \$1,000 present value, but for the present value of \$1,000 payable in ten or twenty installments, an equivalent of \$861 or \$736 respectively, on a $3\frac{1}{2}$ per cent interest basis. If a policy is paid in installments, therefore, the company may give a value equivalent to \$736 immediate cash, or \$861 or \$1,000.

The tendency of the changes made since 1912 in installment benefits reflects very clearly the liberalizing of these benefits. Three companies have changed their installment benefits; two which earlier gave the face value in twenty installments have changed to ten; they have replaced a value of \$736 with one of \$861. One company which gave two-thirds of the sum insured in twenty installments followed by a life annuity has changed to ten. The present value of the installments certain was \$491; the value of the annuity is undeterminable at present, but from the best evidence is small. The value of the new benefit is unquestionably greater than the old.

Seven clauses which originally granted only the waiver of premiums have now added installment benefits and nineteen of the new clauses contain them. Of these twenty-six companies, ten grant the twenty installment benefit, ten the ten installments, two grant monthly payments of $\frac{1}{2}$ per cent and 1 per cent of the sum insured for two hundred and one hundred months, respectively. Four companies give a value equivalent to \$1,000 cash at the time of disability. This latter benefit was first introduced by the Traveler's Insurance Company in October, 1913; the fact that it is now given by four other companies, namely, the Prudential, the Union Central, the Northern Assurance Company of Michigan and the Protective League is significant of the tendency toward more liberal benefits. The Prudential and Union Central clauses are especially commendable because of the latitude allowed in selection of the mode of payment. The Prudential benefit may be paid monthly, quarterly, semi-annually or annually. The Union Central allows the policy to be paid after disability in accordance with the terms of the regular settlement options.

Installment Benefits—Method of Handling Indebtedness

The methods of determining the amount of disability benefit in case indebtedness exists on the policy likewise, show a tendency toward greater liberality. Many of the earlier clauses made no reference to indebtedness, some made its repayment a condition precedent to the receipt of benefits or barred them entirely; some reduced the amount of the installment in the proportion that the indebtedness bore to three-fourths of the sum insured. The most liberal clauses either reduced installments in the proportion that indebtedness bore to the entire amount insured, or reduced the number of installments. In the one case, for instance, the installment would be one-tenth of the amount insured less indebtedness; in the other, one-tenth the amount insured. In the first case ten such installments would be paid; in the second they would continue until the payments plus the indebtedness equalled the face value of the policy and would necessarily be less than ten full payments.

In thirty companies that have introduced or changed the installment benefit recently, seven have made no provision for indebtedness; sixteen have followed one of the two especially liberal plans described above.

Payment of Separate Disability Annuity

The acme of disability protection to date has been reached by three clauses, those of the Penn Mutual Insurance Company of Philadelphia, the Germania Life Insurance Company of New York City, and the Equitable Life Insurance Company of Iowa. These companies have broken all prior traditions concerning the place of the clause in a life insurance contract by giving the insured a straight disability annuity and maintaining his insurance unimpaired. In two cases the annuity is payable monthly and is thus especially fitted to the needs of a disabled man whose income is his only source of support. All three clauses waive the payment of premiums upon the occurrence of disability prior to age sixty; the Penn Mutual and the Equitable begin the payment of a monthly annuity equal to one-one hundred and twentieth of the face value of the policy, and the Germania annuity is one-tenth of the face value, payable annually.

There are two slight differences in the provisions of these clauses. In the event of disability after age sixty the Penn Mutual

and the Germania allow the premiums to be waived and to reduce the amount of insurance in force; the Equitable clause gives no benefit after this age. In case the disability does not prove to be permanent the first two clauses reinstate the policy without deductions upon the resumption of premium payments; the Equitable clause reduces the face of the policy by the amount of disability payments made and reduces the future premiums proportionately.

The commendation which these three clauses deserve cannot be stated too highly. They furnish the first instance where a man may obtain complete protection against the risk of total and permanent disability, in the same sense that the life contract gives complete protection against death. The earlier study referred to in these pages was closed by expressing the hope that some life insurance company would put a disability clause on the market which was a real selling feature, and which would meet competition because of its intrinsic merit as an insurance measure. That hope has at last been realized.